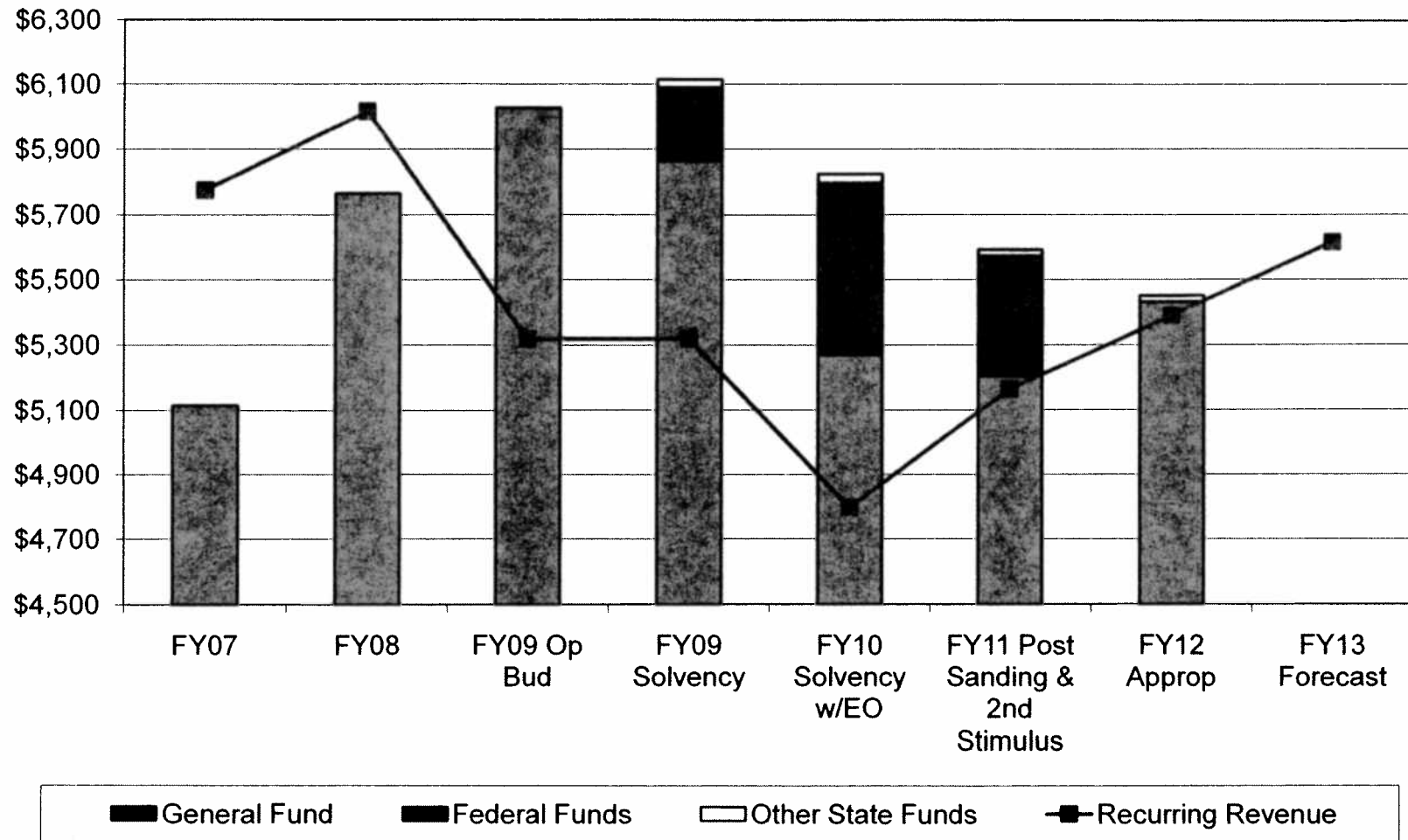


# ***New Mexico Finances and the 2011 Legislative Session***

**Presentation to the  
Revenue Stabilization & Tax Policy Committee  
June 21, 2011**

**David Abbey, Director; Charles Sallee, Deputy Director  
N.M. Legislative Finance Committee**

### General Fund Approp's and One-Time Funds Supplanting General Fund (million dollars)



Source: LFC Files

## U.S. and New Mexico Economic Indicators

by fiscal year ending June 30

	FY2010	FY2011	FY2012
<b>National Economic Indicators</b>			
US Real GDP Growth (annual avg. ,% YOY)*	0.7	2.5	2.6
US Inflation Rate (CPI, annual avg., % YOY)**	1.0	1.3	1.7
Federal Funds Rate (%)	0.2	0.1	0.3
<b>New Mexico Labor Market and Income Data</b>			
NM Non-Agricultural Employment Growth (%)	-3.2	0.2	1.0
NM Personal Income Growth (%)***	0.0	3.5	2.2
NM Private Wages & Salaries Growth (%)	-2.3	2.2	3.6
<b>Crude Oil and Natural Gas Outlook</b>			
NM Oil Price (\$/barrel)	\$71.29	\$76.87	\$82.69
NM Taxable Oil Volumes (million barrels)	62.70	64.20	64.20
NM Gas Price (\$ per thousand cubic feet)****	\$5.18	\$5.00	\$5.75
NM Taxable Gas Volumes (billion cubic feet)	1,285	1,229	1,191

\* Real GDP is BEA chained 2005 dollars, billions, annual rate

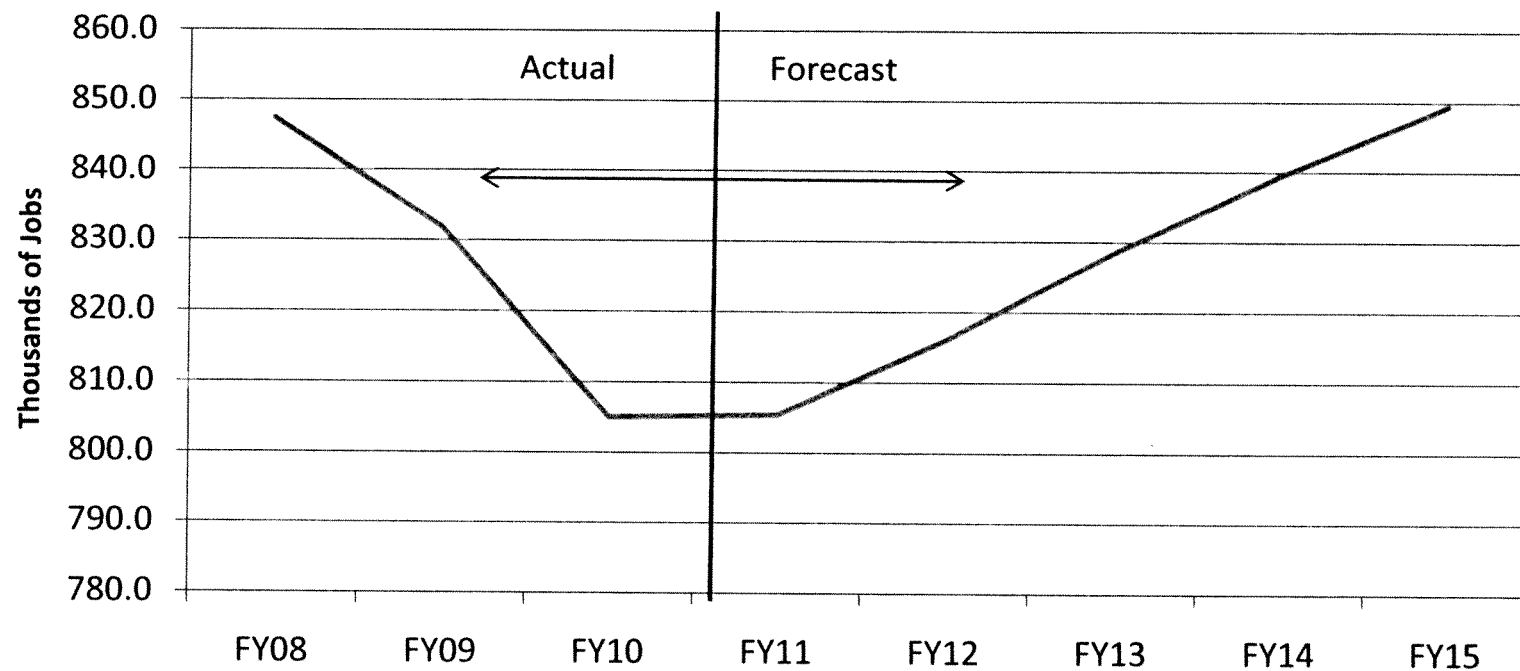
\*\* CPI is all urban, BLS 1982-84=1.00 base.

\*\*\*Personal Income growth rates are for the calendar year in which each fiscal year begins

\*\*\*\*Gas price is estimated using a formula of NYMEX, PIRA, and Global Insight future prices, as well as a liquid premium based on oil price.

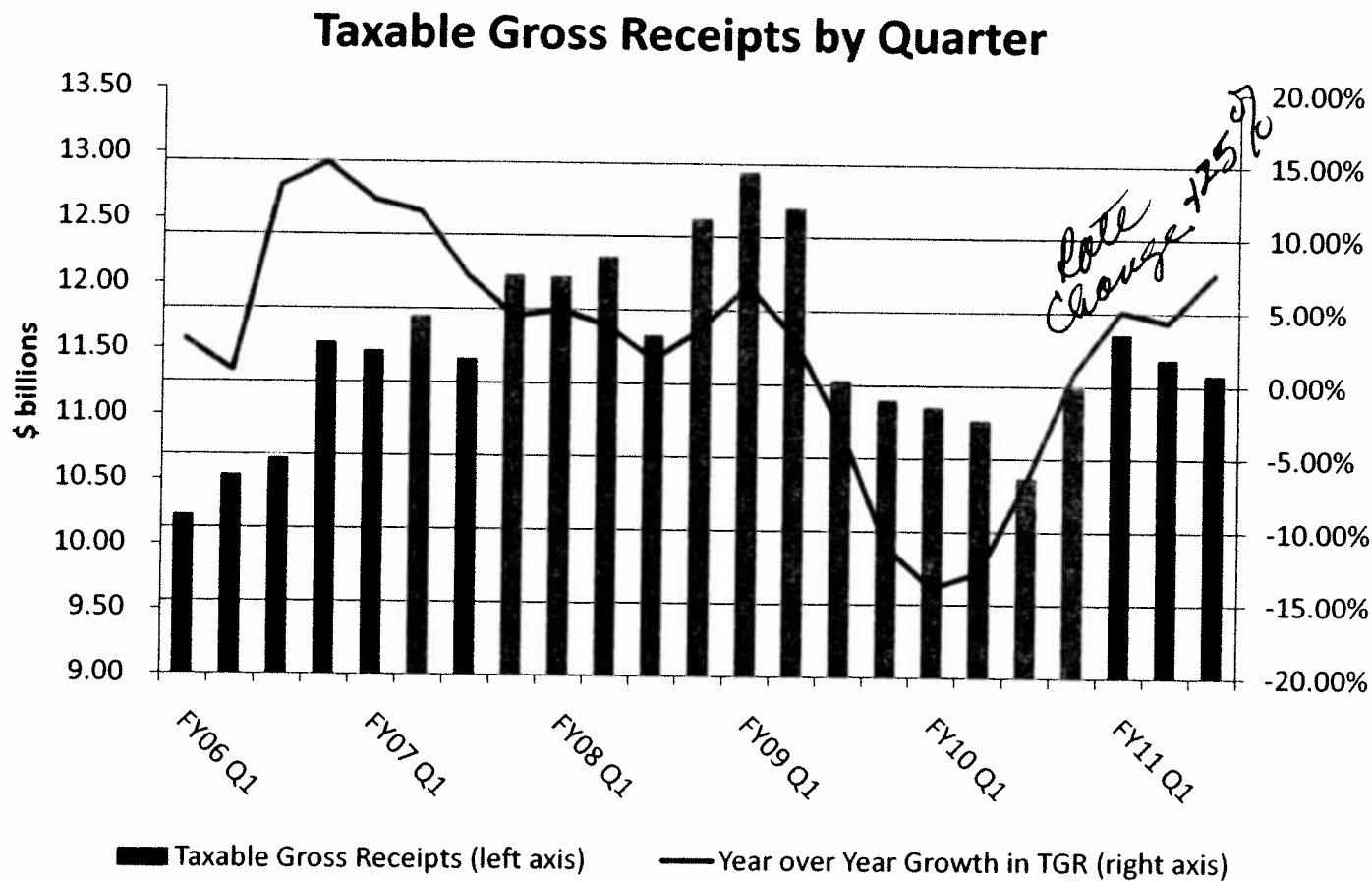
Sources: January Global Insight and February BBER

## Total New Mexico Employment



Source: FOR-UNM forecasting service, May 2011

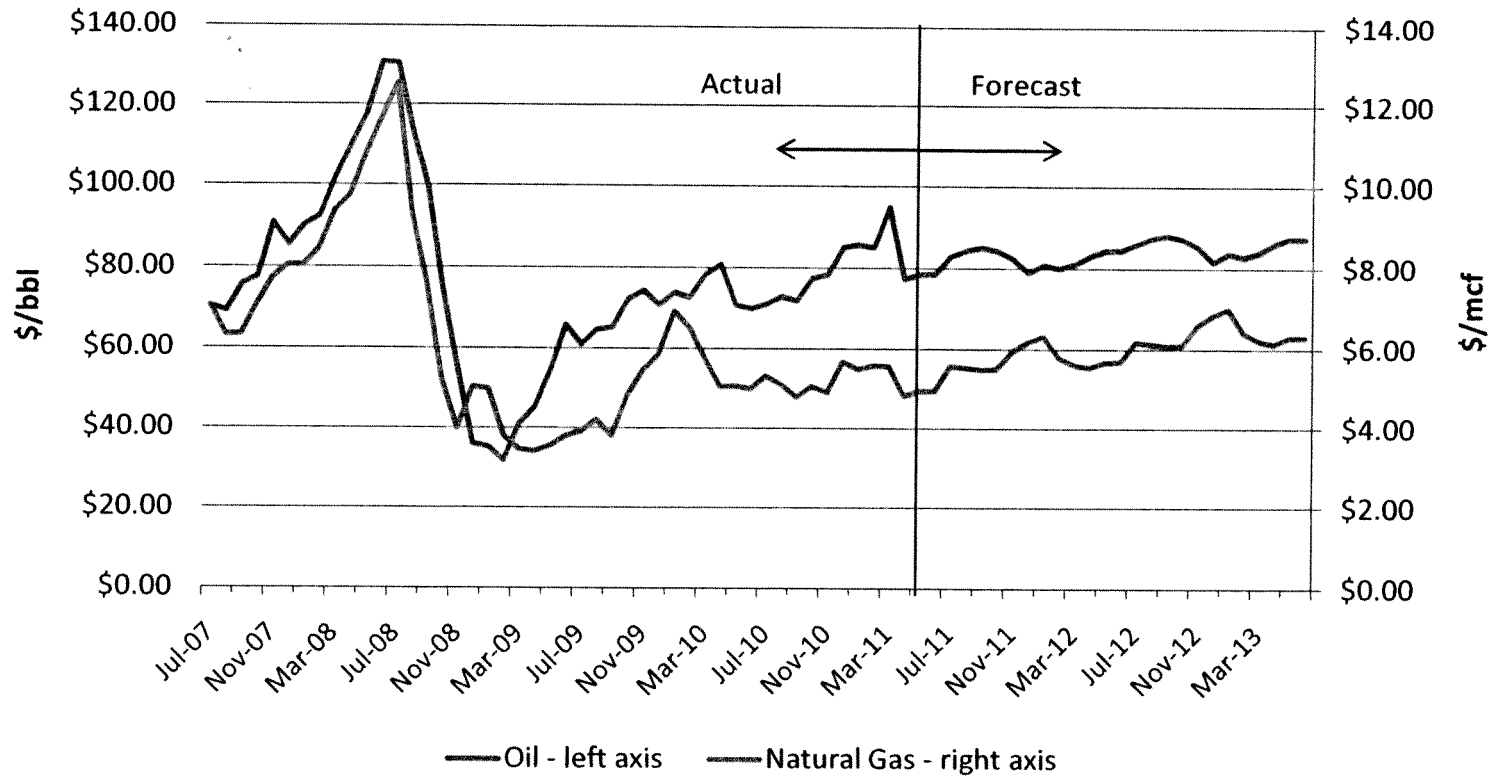
- Little growth seen in FY11
- Growth average approximately 1% per year for next 5 years
- Previous high not reached for 5 more years



Source: NM Taxation & Revenue Department, RP-500.

- Taxable gross receipts (TGR) have experienced a slight decline in recent months.
- Year-over-year growth turned positive in the fourth quarter of FY10 for the first time over a year.
- The level of TGR is about 12 percent below its peak level in the fall of 2009.

## New Mexico Oil and Gas Prices



### December 2010 Consensus forecast:

- Oil Price: \$76.87 FY11, \$82.69 FY12
- Gas price: \$5.00 FY11, \$5.75 FY12
- \$1/mcf: \$92 million for General Fund
- \$1/bbl: \$4 million for General Fund

## December 2010 Consensus General Fund Recurring Revenue Outlook

(Dollar amounts in millions)

	<u><b>FY10</b></u>	<u><b>FY11</b></u>	<u><b>FY12</b></u>
Post-session estimate	\$4,831	\$5,307	\$5,591
July 2010 revisions	-\$32	-\$159	-\$161
October 2010 revisions	-\$5	-\$40	-\$81
December 2010 revisions	\$4	\$56	\$42
<b>Total Recurring Revenue</b>	<b>\$4,799</b>	<b>\$5,164</b>	<b>\$5,390</b>
Annual percent change	-9.8%	7.6%	4.4%

- *4% growth forecast in FY12, but FY08 level not reached until FY15*
- *FY12 “new money” i.e. FY12 revenue – FY11 appropriations, \$201 million*

# **General Fund Revenue Accruals: FY11 vs FY10**

(dollar amounts in millions)

<b>Revenue Category</b>	<b>Fiscal Year-to-Date Through March</b>		<b>Year-to-Date Growth</b>	<b>Projected Full-Year Growth: December 2010 Forecast</b>
	<b>FY10</b>	<b>FY11</b>		
General Sales Taxes (GRT & Comp)	\$1,232.2	\$1,385.0	12.4%	7.1%
Personal Income Tax	\$617.4	\$627.4	1.6%	10.3%
Corporate Income Tax	\$42.1	\$139.2	230.8%	75.9%
Oil & Gas Revenues	\$597.7	\$650.6	8.9%	-1.7%
Investment Income & Other*	\$981.5	\$922.0	-6.1%	2.4%
<b>Total Recurring Revenue</b>	<b>\$3,470.9</b>	<b>\$3,724.2</b>	<b>7.3%</b>	<b>6.8%</b>
<b>Total Recurring Excluding Oil &amp; Gas</b>	<b>\$2,873.2</b>	<b>\$3,073.6</b>	<b>7.0%</b>	<b>8.5%</b>

\*FY10 includes \$104 million in reversions accrued in December 2009

*FY11 year-to-date revenue growth through March is tracking slightly higher than forecast*



## Summary of FY12 Budget Shortfall (\$ millions)

<u>Item:</u>	<u>DFA</u>	<u>LFC *</u>	<u>Actual FY12</u> <u>Approp</u>
Recurring revenue	\$5,389.8	\$5,389.8	\$5,413.2**
Nonrecurring revenue			\$18.3
Total Revenue	\$5,389.8	\$5,389.8	\$5,431.5
Appropriations:			
FY11 general fund	\$5,203.0	\$5,203.0	\$5,203.0
Medicaid	\$377.0	\$279.8	\$295.4
Replace tobacco revenue for Medicaid	\$19.6	\$0.0	\$0.0
Child care/Replace TANF	\$14.0	\$33.0	\$16.1***
Higher education	\$10.9	\$0.0	\$0.0
Public education	\$88.9	\$88.9	\$56.4
ERB contribution	\$18.7	\$0.0	\$0.0
Retirement shift (1.5% in the base)	\$33.3	\$0.0	\$0.0
Judiciary requests	\$9.8	\$0.0	\$0.0
Rest of state government	\$24.8	\$0.0	(\$139.6)
Total	\$5,800.0	\$5,604.7	\$5,431.3
<b>Net surplus(deficit)</b>	<b>(\$410.2)</b>	<b>(\$214.9)</b>	<b>\$0.2</b>

\*LFC assumed continuation of these temporary provisions in FY11 budget

DFA included these amounts in their spending scenario:

-- Tobacco settlement revenue for Medicaid	19.6
-- ERB (sixth year 0.75% increase)	20.0
-- Increase employee RHCA	11.5
-- Increase employee ERB/PERA	42.2

\*\* Includes December Rev Est of \$5,389.7 + \$23.5 from film credit cap

\*\*\* Includes \$12.6 childcare, \$2.0 Pre-K, \$1.0 Domestic Violence, \$0.5 Home Visiting

### Revenue Measures Adopted in 2011 Regular Session

	Bill No.	General Fund (millions)	
Regular Session Bills:		FY11	FY12
Delay Distribution of Fire Protection Fund	SB626	\$0.0	\$1.3
Film Credit Annual Cap	HB607	\$0.0	\$23.3
Other bills		\$0.0	-\$1.1
Grand Total Recurring Revenue Bills Passed		\$0.0	\$23.5

Nonrecurring revenue measures:

Section 12, Fund Transfers	HB2	\$26.0	\$11.4
----------------------------	-----	--------	--------

- *\$24 million increase in recurring revenue for FY12*
- *5% reserves estimated for FY11 and FY12*

## ***Summary of FY12 Budget Expenditure***

- FY12 recurring appropriations prioritized core government services, including education health care and the judiciary. Avoid furloughs and layoffs.
- Budget is essentially the executive recommended spending level.
- No across the board cuts – targeted reductions, i.e. contracts, building leases, no inflation, eliminated long vacant positions, deferred purchases.
- HB2 includes \$25 million contingent on passage of HB607: \$6.5 million for Medicaid; \$7.5 million for public schools; \$3.5 million for DOH; \$3.1 million for CYFD (child care); \$3.5 million for Corrections Dept and \$900 thousand for DPS.
- Reduced TRD general fund appropriation by \$4.4 million and allow TRD to receive an admin fee of 3.25 percent to the food and medical gross receipts hold harmless distribution to cities.

## ***Summary of FY12 Budget Expenditure***

- Retirement Swap - HB628 shifts 1.75 percent from the employer to employee, for employees with salary > \$20,000 (PERA/ERB) in FY12 and FY13 (with sunset contingency); extends the 1.5 percent shift from Laws 2009 for 2 more years (FY12 & FY13)
- Restructuring - \$2.5 million reduces EDD, RLD, Border, DFA, SPO, HSEMD, Gaming, Racing, Environment, Gov Commission on Disability, ALTSD, Tourism to reflect achievements in administrative reforms and restructuring, improvements in program efficiencies and reductions in duplication of government services -VETOED
- Section that allows the Governor to reduce allotments if revenues are not materializing – similar to Laws 2010 -VETOED

**General Fund Approp's and Other State Funds & Federal Funds Supplanting  
General Fund: FY09-FY12**

(dollars in millions)

	FY12 Appropriation				Change From FY11 Adjusted OpBud		Change From FY09 Post- Solvency	
	General Fund	Federal Funds	Other State Funds	Total	\$ Change	% Change	\$ Change	% Change
Public Schools	\$2,364.9			\$2,364.9	-63.2	-2.6%	-223.8	-8.6%
Higher Education	\$716.5			\$716.5	-45.8	-6.0%	-146.3	-17.0%
Medicaid*	\$960.0		\$19.8	\$979.8	15.9	1.6%	10.0	1.0%
Other	\$1,389.9			\$1,389.9	-47.3	-3.3%	-303.6	-17.9%
TOTAL	\$5,431.3	\$0.0	\$19.8	\$5,451.1	-140.4	-2.5%	-663.7	-10.9%

\*Includes general fund appropriations to HSD & DOH for the Developmentally Disabled Medicaid waiver program.

## ***Public School Support***

- Public K-12 accounts for 44% of general fund budget. Overall, public school support increased by \$56.4 million or 2.6 percent.
- Appropriation for public schools includes \$88.3 million to replace federal ARRA funds.
- Reductions of \$25 million to account for administrative and efficiency savings and suspension of certain assessments in FY12 (SB360) and shifts responsibility for RTW employees portion of ERB from employer to employee.
- Below the line appropriations – transportation, instructional materials, etc. reduced by \$300 thousand.
- Three key pieces of legislation from the Executive: HB21 & 100 prohibiting social promotion of third grade students (did not pass); SB502 required teacher and principal evaluation systems (did not pass); and a school grading system that assigns letter grades of A, B, C, D or F (passed).

## ***Higher Education***

- 13.5% of General Fund appropriations.
- NM among top states in funding per capita, but performance outcomes are behind national averages, and are particularly low for minority students.
- Funding formula is input (enrollment) driven; no emphasis on outcomes. Does not address policy goals outlined in statute such as improving the quality of programs central to an institution's mission.
- General Fund incremental cost of formula workload very high in FY12 --- \$20 million, but base budget cuts also needed due to state's fiscal situation.
- Overall tuition levels are among the lowest in the nation --- some room for tuition increases. \$100/student or a 3.1 percent resident at 4yr institutions and 9.5percent resident at 2 yr institutions.
- Need to find other savings such as taxpayer funding of tuition waivers for out-of-state students. NM supports 14 programs that allow out-of-state students to pay in-state tuition rates. Cost to the general fund is about \$85 million.

## ***Medicaid***

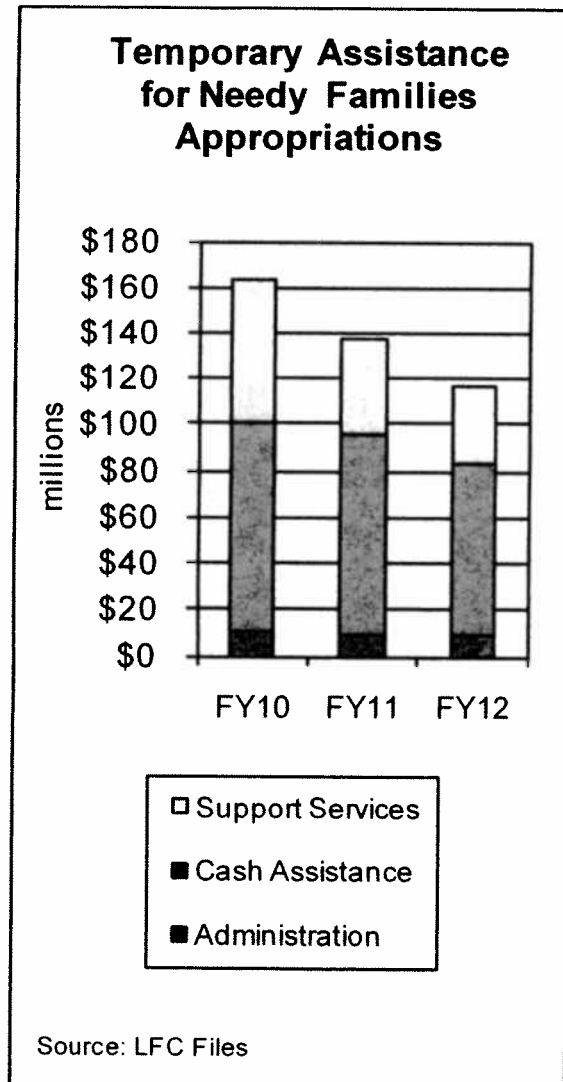
- 16% of general fund budget in FY12, a 44 percent increase from FY11, mostly due to the need to replace ARRA. Enhanced ARRA ends 6/30/11.
- Medicaid received \$7 million general fund FY11 supplemental.
- Medical inflation, enrollment growth, provider rate increases, and new programs (e.g., SCL) have driven costs up. More than 500,000 New Mexicans get healthcare coverage through Medicaid and SCL.
- \$280 million of reduced federal funds were replaced with general fund in FY12 due to matching rates dropping from 78.75 to 70.33 percent.
- In order to accommodate significant growth, HSD will need to take cost containment actions, administrative savings, cut provider rates, reduce or eliminate benefits.
- SB38 & SB370 established the NM Health Insurance Exchange - VETOED



## ***Medicaid Enrollment FY10-FY12***

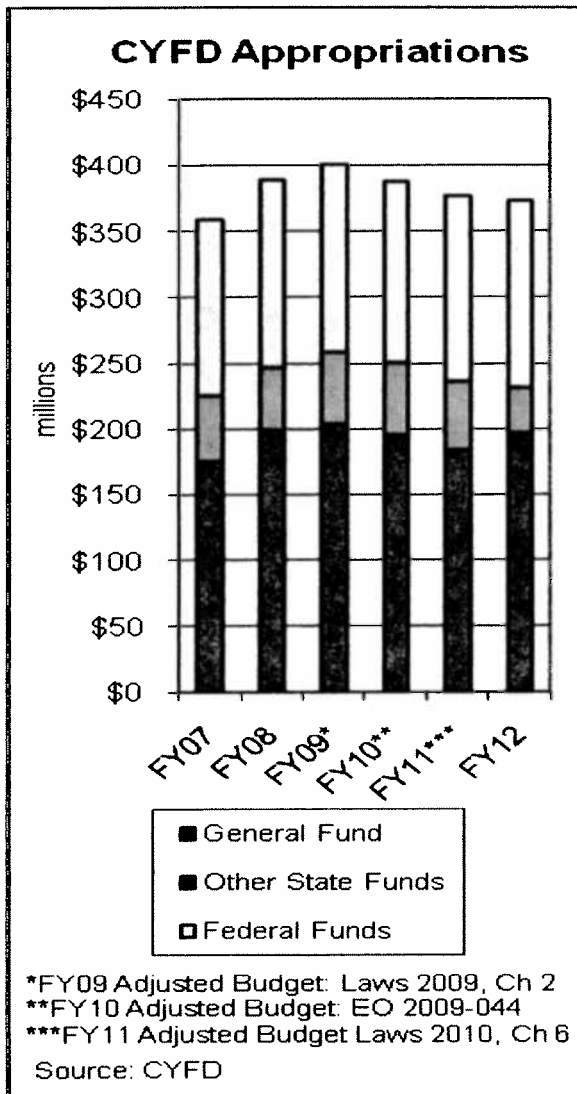
- Medicaid enrollment at its highest point in state history, growing more than 20 percent since FY08. Corresponding growth in expenditures of 22 percent.
- Medicaid & CHIPRA enrollment projected to grow by 3.4% in FY12, reaching 530,638 individuals
- SCL projected to decline in FY12 to approximately 36,000 individuals
- Other Medicaid programs projected in FY12 at 13,000 individuals
- Total FY12 enrollment in Medicaid programs projected at 579,000 individuals

# TANF Appropriations FY10-FY12



- TANF grew by more than 47% between 2008 and 2011
- 21,328 individuals in TANF in January 2011
- ARRA funds and cash balances largely depleted resulting in cash benefits reduction of 15% in 2011
- CYFD, PED and other agencies' TANF funding reduced
- Cash assistance and CYFD's childcare program were prioritized in FY12
- FY12 saw TANF funding reductions for domestic violence, home-visiting at CYFD, prekindergarten programs
- Funding reduced for job training and placement

# CYFD Appropriations FY07-FY12



- FY12 general fund appropriation of \$196.3 million is a 6.9% increase over FY11.

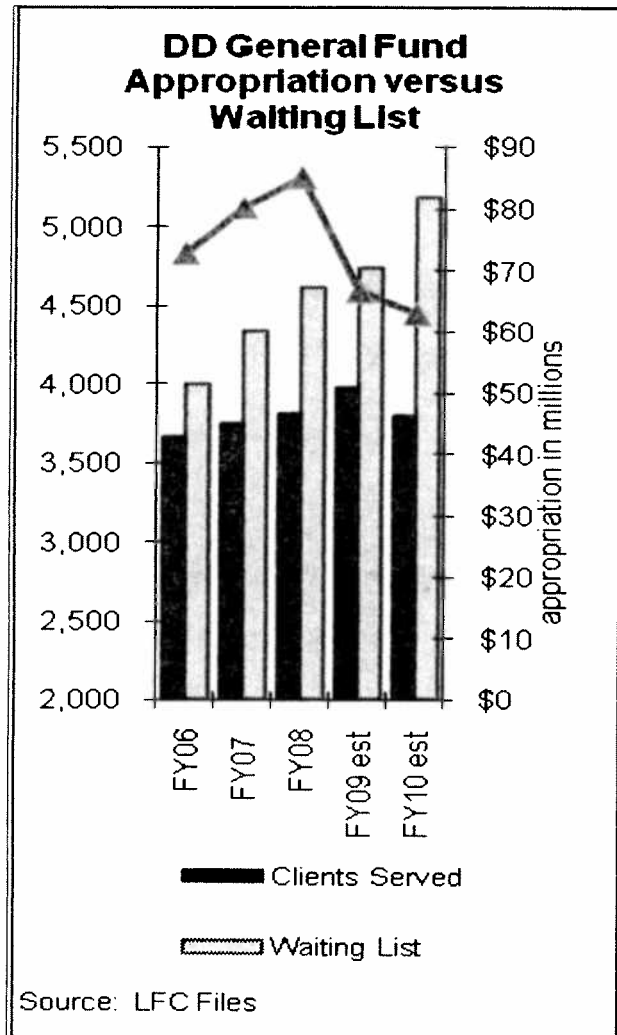
- \$1 million in general fund added for domestic violence program to offset loss of TANF funds, plus an additional \$1 million from the offender treatment & intervention fund.

- In recent years, New Mexico has increased early childhood services by funding new programs, such as prekindergarten and home-visiting services, and increased the eligibility for childcare up to 200 percent of the federal poverty level.

- FY12 general fund grew by \$12.6 million for Early Childhood Services Program including:

- \$11.2 million, or a 69% increase, for childcare
- \$500,000 for early childhood education
- \$946,700 for prekindergarten
- \$100,000 for home visiting

# DD GF vs Waiting List FY06-FY10



- The FY12 general fund appropriation totals \$93 million for the developmental disabilities (DD) Medicaid waiver.

- FY12 increase in general fund revenue of \$30 million or 48% over FY11 is due to the expiration of \$29 million in federal ARRA stimulus funds.

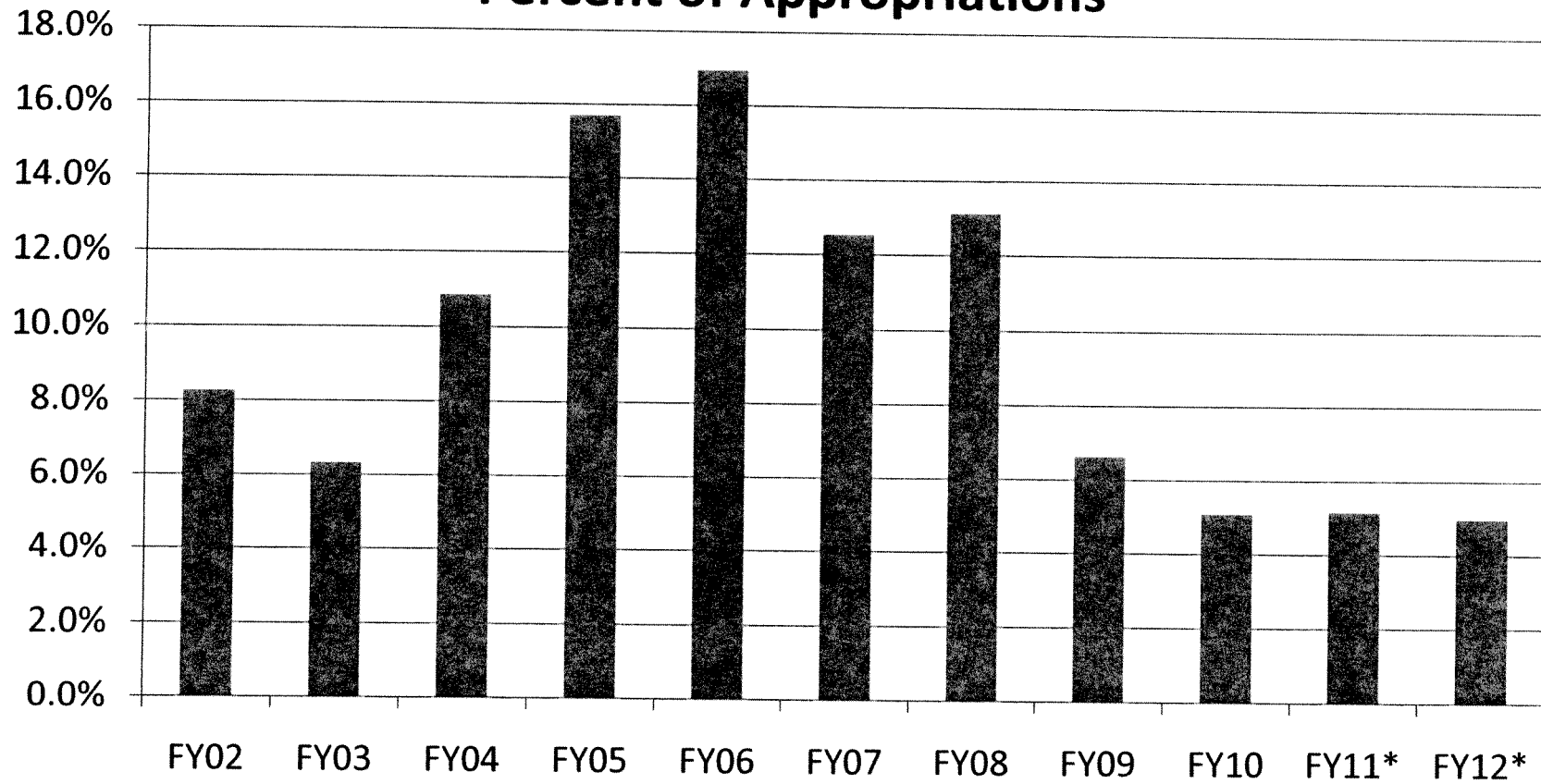
- FY12 appropriation includes \$1 million to enroll an estimated 70 additional clients from the DD waiver waiting list.

- 3,804 individuals receive DD waiver services.

- 5,182 individuals are on the DD waiting list.

- 227 individuals receive Medically Fragile waiver services.

## General Fund Reserves Percent of Appropriations



\*Forecast

- Forecast risks require higher reserves

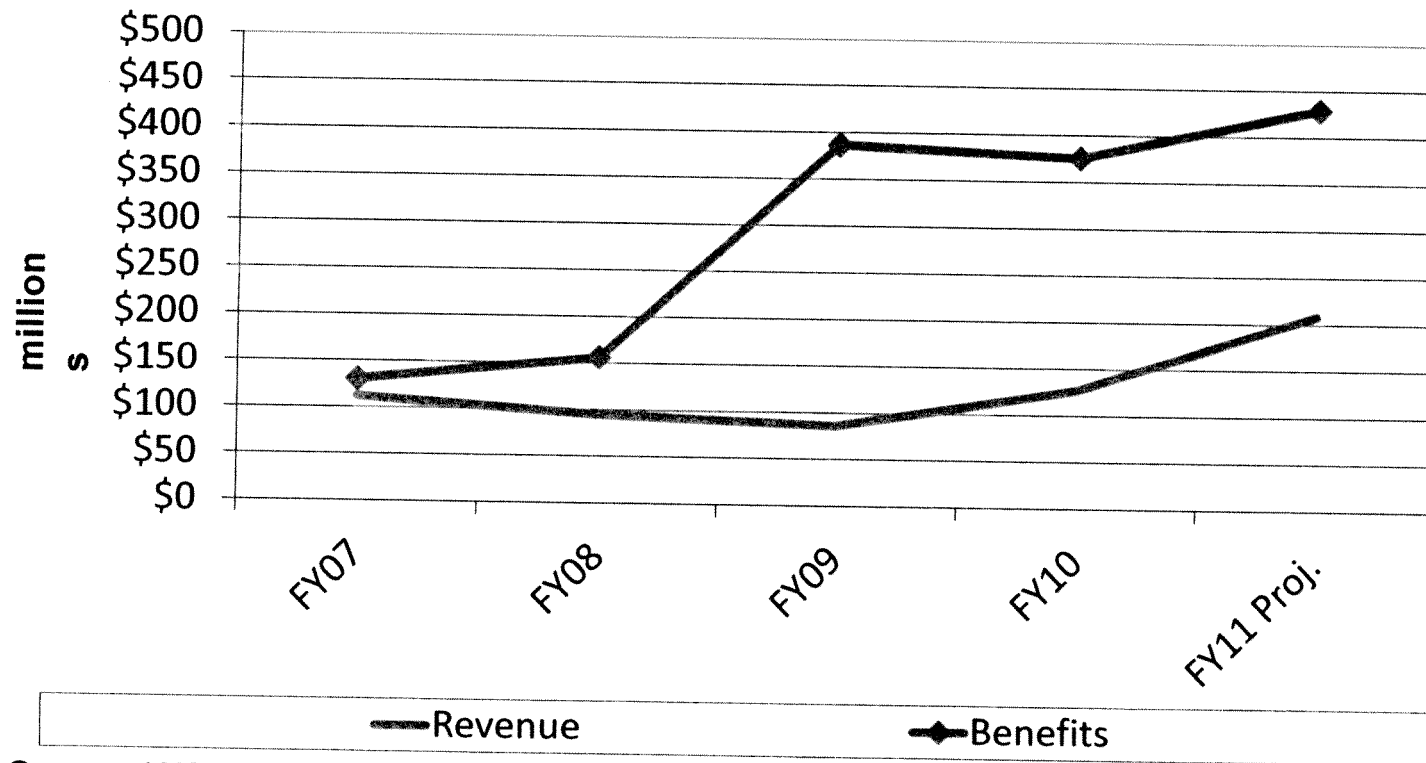
## ***FY13 Budget Outlook***

- **Revenue:**
- Consensus forecast assumes 4% revenue growth = \$5,615 million
- Added revenues from 2011 bills = \$22 million
- Nonrecurring revenue (tax amnesty) = (\$3.3 million)
- Total revenue = \$5,634 million
- **Appropriations:**
- Assume flat budget from FY12 = (\$5,431 million)
- Projected increase in Medicaid spending= (\$35 million)
- Need to replace other one-time savings = (\$15+ million)
- Total spending needed for current services = (\$5,481 million)
- **Projected surplus revenues = \$153 million**

## ***Highlights of Significant Projects in Failed Senate Bill 218***

- \$62 million for deferred road improvements
- \$69.4 million for critical state buildings, hospital upgrades and correctional facilities
- \$25.4 million for water lines, fire protection, state match for Indian water settlements
- \$32.8 million for higher education and public and special schools
- \$11.2 million for cultural and natural preservation

## NM UI Trust Fund Revenue and Benefits



Source: WSD

*Fund balance is projected to be \$6 million at the end of the first quarter of calendar year 2012.*